



Alerts

Use It or Lose It: Federal Gift and Estate Tax Exemption Set to Sunset at the End of 2025

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Hinshaw Alert

The Tax Cuts and Jobs Act (TCJA) of 2017 nearly doubled the federal lifetime gift and estate tax exemption. In 2024, this act currently allows individuals to transfer up to \$13.61 million per person and \$27.22 million per married couple to others during their lifetime or at death without incurring any federal gift or estate taxes.

However, this significant exemption is set to “sunset” after **December 31, 2025**. As a result, if Congress does not act, beginning on January 1, 2026, the exemption will revert back to the pre-TCJA level of \$5 million per person, adjusted for inflation.

Act Now to Shift Significant Wealth Tax-Free

A window remains available for high-net-worth individuals and families to shift large amounts of wealth to future generations tax-free. In addition, many individuals who did not expect their wealth to surpass the higher TCJA exemption threshold may find themselves in a different position after the exemption sunsets. If they do not implement a plan now, these individuals or families may also lose the ability to save on federal estate taxes, which could lead to significant additional wealth transfer taxes as a result.

By adopting a “use it or lose it” approach, individuals can transfer or gift certain assets now, before the sunset occurs, to ensure they are utilizing the maximum available federal gift and estate tax exemptions.

Many different strategies can be used to shift wealth to maximize tax savings. Some of these strategies include but are not limited to, outright gifts to irrevocable trusts, the creation of irrevocable life insurance trusts, and/or sales of certain types of assets to intentionally defective grantor trusts.

The Internal Revenue Service (IRS) has issued final regulations that ensure that individuals taking advantage of the higher exemption amounts between 2018 and 2025 will not be adversely impacted after 2025, and there will be no clawback of gifts made once the exemption amount drops to pre-TCJA levels as scheduled.

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Contact Us to Start Your Plan

Current circumstances have created a “once-in-a-lifetime” federal gift and estate tax savings opportunity to transfer significant wealth to family members and loved ones. Individuals who wish to take advantage of one or more of these strategies should contact us as soon as possible to review their current estate planning documents and formulate and implement a plan to maximize federal tax savings before the sunset occurs.